GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:86
ANSWERED ON:28.07.2006
INVESTMENT OF PUBLIC SECTOR BANKS/ FIS IN STOCK MARKET
Gangwar Shri Santosh Kumar

Will the Minister of FINANCE be pleased to state:

(a) the amount of money invested in stock market by the public sector banks and financial institutions during the last year and the current year, bank-wise, institution-wise;

(b) the reasons for investing in stock market; .

(c) whether the Government has issued any directive to the public sector banks about their participation in the share market in view of the inherent uncertainties; and

(d) if so, the details thereof?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI P. CHIDAMBARAM)

(a) to (d) : A statement is laid on the Table of the House.

STATEMENT FOR LOK SABHA STARRED QUESTION NO.86 FOR 28th JULY, 2006 REGARDING INVESTMENT OF PUBLIC SECTOR BANKS /FIs IN STOCK MARKET TABLED BY SHRI SANTOSH GANGWAR

(a)&(b) : The banks and financial institutions (FIs) invest in stock market as part of their overall investment strategy to maximize their earnings.The total exposure of public sector banks and FIs in the capital market as at end March 2005 and 2006 is furnished in Annex I and Annex II respectively.

(c) & (d) : To limit the risks associated with investment in capital market, RBI has prescribed certain statutory and regulatory exposure limits for the banks in respect of advances against investment in shares, debentures and bonds. Presently, the banks are permitted to invest, in the capital market, upto 5 percent of their total outstanding advances (including Commercial Paper) as on March 31 of the previous year. Further, RBI has also directed Banks / FIs to formulate a Board approved transparent policy and procedure for investment in shares, build up adequate expertise in equity research, set up an Investment Committee in the bank, observe risk management norms, update Risk Management and internal control systems, carry out surveillance and monitor investment in capital market by the Audit Committee of the Board, disclose the investment in stocks in the `Notes on Accounts` to their balance sheets, etc.